



baviaans

PARTICIPATION FOR DEVELOPMENT

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local municipality
plaaslike munisipaliteit

BAVIAANS LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015
Auditor-General South Africa
Published 31 August 2015

AUDITOR - GENERAL
SOUTH AFRICA

21 JAN 2016

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

GENERAL INFORMATION

Legal form of entity

The entity functions as a local municipality, established under Paragraph 151 of the Constitution of the Republic of South Africa, 1996, as amended.

Nature of business and principal activities

Baviaans Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act No. 117 of 1998). The municipality's operations are governed by: Municipal Finance Management Act 56 of 2003, Municipal Structure Act 117 of 1998, Municipal Systems Act 32 of 2000 and various other Acts and regulations.

Mayoral committee

Mayor/Speaker

Councillors

EL Looock

DJ Bezuidenhout

H Booysen

ME Fivaz

GA Hobson

VB Lapperts

TR Spogter

Grading of local authority

Grade 1

Accounting Officer

JZA Vumazonke

Chief Finance Officer (CFO)

H Nagel

Business address

42 Wehmeyer Street
Willowmore
6445

Bankers

ABSA Bank, Willowmore
Standard Bank, Steytleville

Auditors

Auditor-General South Africa

Principal Activities

The principal activities of the municipality are:

- Provide democratic and accountable government
- Ensure sustainable service delivery to the communities
- Promote social and economic development
- Provide basic services to the community

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SDL	Skills Development Levy

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ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GRAP) and the Municipal Finance Management Act (MFMA) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The councilors are remunerated within the upper limits of the framework envisaged in Section 219 of the Constitution, as required by the MFMA, section 124(1)(a).

The annual financial statements set out on pages 4 to 65, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed by him:

JZA Vumazonke
Municipal Manager

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

Figures in Rand	Notes	2015	2014
Assets			
Current Assets			
Inventories	2	18 430	9 305
Other receivables	3	411 253	405 499
VAT receivable	4	2 858 705	2 341 752
Trade receivables	5	2 251 502	1 405 213
Cash and cash equivalents	6	1 224 236	471 968
		6 764 126	4 633 737
Non-Current Assets			
Investment property	7	38 259 859	38 339 359
Property, plant and equipment	8	231 766 680	211 651 789
Intangible assets	9	4	4
Heritage assets	10	659 164	659 164
Non-current assets held for sale	11	9 000	8 500
		270 694 707	250 658 816
Total Assets		277 458 833	255 292 553
Liabilities			
Current Liabilities			
Repayment - National Revenue Fund	12	2 169 000	4 500 000
Finance lease obligation	13	399 604	559 498
Trade and other payables	14	26 418 900	20 834 064
Consumer deposits	15	426 323	149 694
Unspent conditional grants and receipts	16	(1 865 732)	600 371
		27 548 095	26 643 627
Non-Current Liabilities			
Repayment - National Revenue Fund	12	742 616	631 616
Finance lease obligation	13	259 644	685 711
Provisions	17	11 639 915	11 346 449
		12 642 175	12 663 776
Total Liabilities		40 190 270	39 307 403
Net Assets		237 268 563	215 985 150
Accumulated surplus		237 268 563	215 985 150

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STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Notes	2015	2014
Revenue			
Property rates	18	4 372 948	3 429 311
Service charges	19	19 677 497	17 480 624
Fines, Penalties and Forfeits	20	800	9 250
Government grants & subsidies	21	69 672 627	61 478 552
Agency services	20	535 392	764 352
Interest received	20	708 961	580 460
Licences and permits	20	745 656	624 582
Rental of facilities and equipment	20	199 248	46 126
Other income	20	350 571	283 416
Gains on disposal of assets	20	71 569	152 455
Public contributions and donations	20 / 51	-	12 424
Total revenue		96 335 269	84 861 552
Expenditure			
Personnel	22	(21 654 320)	(20 233 174)
Remuneration of councillors	23	(1 752 270)	(1 668 650)
Debt impairment	24	(1 390 889)	(1 744 240)
Depreciation and amortisation	25	(16 145 593)	(16 145 921)
Finance costs	26	(1 635 790)	(1 392 212)
Repairs and maintenance	27	(2 324 865)	(1 953 424)
Bulk purchases	28	(9 152 754)	(8 475 329)
Grants and subsidies paid	29	(6 710 446)	(5 385 989)
General expenses	30	(14 206 929)	(14 825 150)
Impairment of assets	31	(78 000)	(1 229 500)
Loss on disposal of assets	7	-	(181 500)
Total expenditure		(75 051 856)	(73 235 089)
Surplus for the year		21 283 413	11 626 463

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STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported at 01 July 2013		202 154 490	202 154 490
Adjustments			
Correction of errors	32	2 204 197	2 204 197
Balance at 01 July 2013 as restated		204 358 687	204 358 687
Changes in net assets			
Surplus for the year		11 626 463	11 626 463
Total changes		11 626 463	11 626 463
Balance at 01 July 2014		215 985 150	215 985 150
Changes in net assets			
Surplus for the year		21 283 413	21 283 413
Total changes		21 283 413	21 283 413
Balance at 30 June 2015		237 268 563	237 268 563

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CASH FLOW STATEMENT

Figures in Rand	Notes	2015	2014
Cash flows from operating activities			
Receipts			
Rates and services		21 290 560	18 230 060
Government grants & subsidies	21	69 672 627	61 478 552
Interest income	20	708 961	580 460
Other receipts		1 831 667	1 740 150
		<u>93 503 815</u>	<u>82 029 222</u>
Payments			
Employee costs		(23 406 590)	(21 916 168)
Suppliers		(29 424 954)	(28 445 957)
Finance costs	26	(926 128)	(828 801)
		<u>(53 757 672)</u>	<u>(51 190 926)</u>
Net cash flows from operating activities	33	<u>39 746 143</u>	<u>30 838 296</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(36 293 733)	(36 041 289)
Proceeds from sale of property, plant and equipment	8	104 824	391 505
Proceeds from sale of non-current assets held for sale	7	1 000	110 000
Net cash flows from investing activities		<u>(36 187 909)</u>	<u>(35 539 784)</u>
Cash flows from financing activities			
Movement in repayment - national revenue fund		(2 220 000)	5 131 616
Movement in finance leases		(585 966)	(257 630)
Net cash flows from financing activities		<u>(2 805 966)</u>	<u>4 873 986</u>
Net increase in cash and cash equivalents		752 268	172 498
Cash and cash equivalents at the beginning of the year		471 968	299 470
Cash and cash equivalents at the end of the year	6	<u>1 224 236</u>	<u>471 968</u>

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Property rates	4 376 515	-	4 376 515	4 372 948	(3 567)	
Service charges	19 999 655	(60 187)	19 939 468	19 677 497	(261 971)	
Fines	10 000	(8 000)	2 000	800	(1 200)	A
Transfers recognised - operating	25 819 000	1 236 000	27 055 000	28 552 943	1 497 943	B
Rental of facilities and equipment	42 570	136 080	178 650	199 248	20 598	D
Interest received	460 900	130 805	591 705	708 961	117 256	E
Agency services	782 280	(95 280)	687 000	535 392	(151 608)	F
Licences and permits	643 511	112 759	756 270	745 656	(10 614)	
Other income	279 759	1 488	281 247	350 571	69 324	G
Gains on disposal of assets	-	100 000	100 000	71 569	(28 431)	H
Total revenue	52 414 190	1 553 665	53 967 855	55 215 585	1 247 730	
Expenditure						
Personnel	(22 278 372)	(69 282)	(22 347 654)	(21 654 320)	693 334	
Remuneration of councillors	(1 755 255)	(13 083)	(1 768 338)	(1 752 270)	16 068	
Debt impairment	-	(1 200 000)	(1 200 000)	(1 390 889)	(190 889)	I
Depreciation, amortisation and impairment	(15 600 000)	(400 000)	(16 000 000)	(16 145 593)	(145 593)	J
Impairment loss	-	-	-	(78 000)	(78 000)	K
Finance costs	(1 128 906)	-	(1 128 906)	(1 635 790)	(506 884)	V
Repairs and maintenance	(2 589 398)	41 581	(2 547 817)	(2 324 865)	222 952	
Bulk purchases	(10 153 318)	853 318	(9 300 000)	(9 152 754)	147 246	
Transfers and Subsidies	(5 316 683)	(1 421 664)	(6 738 347)	(6 710 446)	27 901	
General Expenses	(12 873 481)	(1 318 933)	(14 192 414)	(14 206 929)	(14 515)	
Total expenditure	(71 695 413)	(3 528 063)	(75 223 476)	(75 051 856)	171 620	
Operating deficit	(19 281 223)	(1 974 398)	(21 255 621)	(19 836 271)	1 419 350	
Transfers recognised - capital	42 539 736	2 751 789	45 291 525	41 119 684	(4 171 841)	C
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	23 258 513	777 391	24 035 904	21 283 413	(2 752 491)	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	50 000	135 000	185 000	18 430	(166 570)	L
Other receivables	1 200 000	-	1 200 000	411 253	(788 747)	M
VAT receivable	-	-	-	2 858 705	2 858 705	M
Consumer debtors	3 600 000	(722 000)	2 878 000	2 251 502	(626 498)	N
Cash and cash equivalents	932 000	222 000	1 154 000	1 224 236	70 236	
	5 782 000	(365 000)	5 417 000	6 764 126	1 347 126	
Non-Current Assets						
Investment property	39 581 000	(1 147 000)	38 434 000	38 259 859	(174 141)	
Property, plant and equipment	226 333 000	4 331 000	230 664 000	231 766 680	1 102 680	O
Intangible assets	-	-	-	4	4	
Heritage assets	-	-	-	659 164	659 164	P
Non-current assets held for sale	-	-	-	9 000	9 000	Q
	265 914 000	3 184 000	269 098 000	270 694 707	1 596 707	
Total Assets	271 696 000	2 819 000	274 515 000	277 458 833	2 943 833	
Liabilities						
Current Liabilities						
Repayment - National Revenue Fund	-	2 931 616	2 931 616	2 169 000	(762 616)	R
Finance lease obligation	950 000	20 384	970 384	399 604	(570 780)	S
Trade and other payables	8 767 000	12 255 000	21 022 000	26 418 897	5 396 897	T
Consumer deposits	146 000	242 000	388 000	426 323	38 323	
Unspent conditional grants and receipts	-	-	-	(1 865 732)	(1 865 732)	U
Provisions	1 167 000	-	1 167 000	-	(1 167 000)	V
	11 030 000	15 449 000	26 479 000	27 548 092	1 069 092	
Non-Current Liabilities						
Repayment - National Revenue Fund	-	-	-	742 616	742 616	R
Finance lease obligation	2 800 000	884 000	3 684 000	259 644	(3 424 356)	S
Provisions	4 078 000	1 562 000	5 640 000	11 639 915	5 999 915	V
	6 878 000	2 446 000	9 324 000	12 642 175	3 318 175	
Total Liabilities	17 908 000	17 895 000	35 803 000	40 190 267	4 387 267	
Net Assets	253 788 000	(15 076 000)	238 712 000	237 268 566	(1 443 434)	
Net Assets						
Reserves						
Accumulated surplus	253 788 000	(15 076 000)	238 712 000	237 268 566	(1 443 434)	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

The reason for the amended budget was mainly due to reallocations as well as increases to non cash flow line items.

Statement of Performance

A - Fines

The function is performed by the Department of Roads and Transport and the municipality does not have control over the income generated.

B - Transfers recognised in Operations

The municipality managed to obtain funds from National Treasury for the re-imbursment of audit fees in excess of 1% of expenditure. The funds covered some of the excess costs for three financial years and was more than budgeted.

C - Transfers recognised in Capital

Less than expected funds were received through the Regional Bulk Infrastructure Grant.

D - Rental of facilities and equipment

There was increased use of municipal facilities over the past year, this with the increase in tariffs charged.

E - Interest received

The municipality was able to invest and manage the grant funding during the year which related in an increase in interest earned.

F - Agency fees

The motor registration services are performed on an agency basis. Less transactions than anticipated were processed during the current financial year.

G - Other Income

Greater than expected other income was received as new service connections, pound fees and memberships increased.

H - Gains on disposal of assets

Bids received for the disposal of assets were lower than expected.

I - Debt impairment

Council resolved to write off all identified irrecoverable debt. The write off was greater than the available prior year provision, this in-conjunction with the current years debt impairment lead to increase in the impairment required.

J - Depreciation, amortisation and impairments

The increase in depreciation can be attributed to an increase in the cost of landfill sites. This was as a result of an investigation and calculation done by professionals for the provisional of landfill sites. The remaining useful lives of asset that were fully depreciated were also revisited this resulting in an unforeseen increase in the depreciation charge.

K - Impairment losses

The impairment was as a result of investment property being sold for less than cost. This was not foreseen during the adjustment budget period.

Statement of Position

L - Inventories

The final inventory count was less than budgeted. This was due to a difference in anticipated water volumes and cost of operations.

M - Other Receivables and VAT Receivable

VAT Receivables form part of other receivables. The anticipated VAT receivable balance was great than anticipated at year end.

N - Consumer debtors

Council resolved to write off all identified irrecoverable debtor. The improved debtor's recovery resulted in a reduced consumer balance as year-end.

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

O - Property, Plant and Equipment

Less than expected funds were made available through the Regional Bulk Infrastructure Grant, which would have been utilised to complete additional projects.

P - Heritage Assets

This is the first year that the GRAP standards require heritage assets to be valued. The information was not available at the time of the adjustment budget.

Q - Non-Current Assets Held for Sale

It was not foreseen that investment properties to be sold would not be transferred by year end.

R - Repayment – National Revenue Fund

It was anticipated that the amount full due to the National Revenue Fund, which related to Unspent Conditional Grants for 2012/13 would have been full claimed back by National Treasury. The municipality managed to negotiate extended payment terms.

S - Finance Lease obligation

Planned asset purchases during the current year did not meet the definition of a finance lease.

T - Trade payables

The municipality experienced cash flow problems during the year and was unable to pay creditors within 30 days.

U - Unspent Conditional Grants and Receipts

A Regional Bulk Infrastructure Grant claim was submitted close to year end. Payment for the claim was received subsequently to year end.

V - Provisions

The provision for landfill sites was reviewed by professionals. This resulted in an increase in the provision for landfill sites and the related finance charge.

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ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below.

These accounting policies are consistent with those applied in the preparation of the prior year financial statements, unless specified otherwise.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity, rounded to R1.

1.2 Going concern

These annual financial statements were prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.3 Budget information

Budget information in accordance with GRAP 1 and 24, has been provided in the Statement of comparison of budget and actual amounts.

1.4 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior years.

The nature and reasons for the reclassifications and restatements are disclosed in note 32 to the financial statements.

1.5 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.6 Significant judgements and sources of estimation uncertainty

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require material adjustment to the carrying amount of the relevant asset or liability in future periods.

Judgements

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the annual financial statements.

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ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the entity's accounting policies, the following estimates were made:

Inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

Impairments of non-financial assets

In determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision, management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Pension and other post-employment benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate, future salary increase, mortality rates and future medical increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles, so that the effect of any impairment on a group of receivables would not differ materially from the impairment, that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Provision for rehabilitation of refuse landfill sites

The entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value using an appropriate discounting rate, representing the time value of money.

ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's current condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the useful life and residual value, management considers the impact of technology and minimum service requirements of the assets.

Inventory

The value of water inventory is calculated by considering the quantity of water in the pipes and is estimated based on the dimensions/measuments of the pipes and the average cost per KL.

1.7 Investment property

Initial recognition and measurement

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, to meet service delivery objectives, for administrative purposes or sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

The cost of day to day servicing of investment property is recognised in the Statement of Financial Performance as incurred.

Subsequent measurement

Cost model

Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation recognised on investment property is determined with reference to the useful lives and residual values of the underlying items. Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Buildings	30 years

Land is not depreciated as it is considered to have an indefinite useful life.

Impairments

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1.7 Investment property (continued)

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an investment property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance in the period of retirement or disposal.

1.8 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the cost of dismantling and removing the asset and restoring the site on which it is operated.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Major spare parts and servicing equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and servicing equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Subsequent measurement

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, which is not depreciated as it is deemed to have an indefinite useful life.

Subsequent expenditure

Where the entity replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Depreciation

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1.8 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Components that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciable amount is determined after taking into account an asset's residual value.

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1.8 Property, plant and equipment (continued)

The annual depreciation rates are based on the following estimated useful lives:

Item	Average useful life
Infrastructure	
• Roads and paving	10-30 years
• Water	15-20 years
• Pedestrian malls	20 years
• Electricity	20-30 years
• Sewerage	15-20 years
• Gas	20 years
• Airports	20 years
• Security	3-5 years
Community	
• Buildings	30 years
• Recreational equipment	20 years
Other	
• Buildings	30 years
• Office equipment	3-7 years
• Furniture and fittings	7-10 years
• Bins and containers	5-10 years
• Emergency equipment - fire hoses and emergency lights	5 years
• Emergency equipment - other firefighting equipment	15 years
• Motor vehicles - motor cycles	3 years
• Motor vehicles - fire engines	20 years
• Motor vehicles - other	5-10 years
• Plant and equipment - farming and construction	10-15 years
• Plant and equipment - Specialised equipment	5 years
• Plant and equipment - lawn mowers	2 years
• Other	15 years

Impairments

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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1.9 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and the cost or fair value of the asset can be measured reliably.

An internally generated intangible asset is subject to strict recognition criteria before it is capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the entity intends to complete the intangible asset, for use or sale
- it is technically feasible to complete the intangible asset
- the entity has the resources to complete the project
- it is probable that it will generate future economic benefits or service potential.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Subsequent measurement

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation and impairment

Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight-line method.

The annual amortisation rates are based on the following estimated average asset lives:

Computer software

5 years

Impairments

The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

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1.9 Intangible assets (continued)

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.10 Financial instruments

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument meets the relevant definitions.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

Initial measurement

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:

a) Financial instruments at fair value:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

b) Financial instruments at amortised cost

Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the entity designates at fair value at initial recognition or are held for trading.

c) Financial instruments at cost

Investments in residual interest, which do not have quoted market prices and for which fair value cannot be determined reliably.

The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

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1.10 Financial instruments (continued)

Impairments

All financial assets measured at cost or amortised cost are subject to an impairment review. The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the entity determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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1.10 Financial Instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.11 Leases

Finance leases - lessee

Initial recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Subsequent measurement

Subsequent to initial recognition the finance lease liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

Finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

Operating leases - lessor

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease.

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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1.12 Inventories

Initial recognition and measurement

Inventories are initially measured at cost. Cost refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their required location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage.

Where inventory is acquired for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress (WIP) and finished goods (FG), are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Water inventory is measured annually at the reporting date by way of dip readings and the calculated volume in the distribution network.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value.

Derecognition

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

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1.13 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Post-employment benefits

The entity provides post employment benefits for its officials. These benefits are provided as either defined contribution plans or defined benefit plans. The entity identifies as defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions payable on behalf of employees (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans.

Defined contribution plans

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

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1.14 Employee benefits (continued)

Post retirement medical obligations

The municipality provides post-retirement medical benefits by subsidising the medical contributions of certain retired staff members according to the rules of the medical aid funds. Council pays 70% of the contributions and the remaining 30% is paid by the members.

The entitlement to post-retirement medical benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations, in accordance with GRAP 25 - "Employee Benefits". The plan is unfunded.

The contributions are recognised in the statement of financial performance when the employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value of the plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of minimum funding requirements. Payments made by the municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries, and are recognised in the Statement of Financial Performance upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditure for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

1.16 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrues to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

Recognition

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1.16 Revenue from exchange transactions (continued)

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

Specific exchange revenue sources

Service charges relating to electricity and water are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly.

Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. At reporting date, an estimate of the prepaid electricity consumed is made and revenue is adjusted accordingly. The estimate is based on trend analysis and historical data of electricity consumption.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly basis.

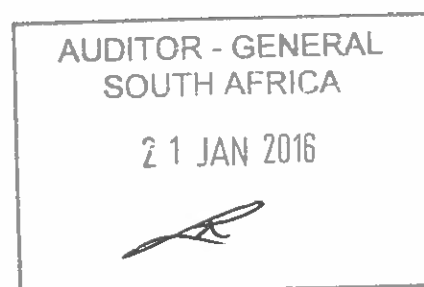
Rental income arising on facilities and equipment is accounted for on a straight-line basis over the lease terms on ongoing leases.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and rebates.

1.17 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.



Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

1.17 Revenue from non-exchange transactions (continued)

Recognition

Revenue from non-exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Fines are recognised when it is probable that future economic benefits will flow to the entity, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information available from the courts, it is not possible to measure this revenue in the invoicing period.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

Measurement

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

1.18 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and other entity are subject to common control.

Transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances are disclosed within the annual financial statements.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

1.23 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.24 Taxes - Value added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of value added tax recoverable from, or payable to the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.25 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

1.26 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.27 Capital commitments

Capital commitments disclosed in the financial statements represents the contractual balance committed to the capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.28 Post-reporting date events

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29. New standards and interpretations

1.29.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:

- GRAP 109: Accounting by Principals and Agents

Effective date:
Years beginning on or
after
Unknown

Expected impact:

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No significant effect
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Baviaans Local Municipality

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ACCOUNTING POLICIES

• GRAP 32: Service Concession Arrangements: Grantor	Unknown	No significant effect
• GRAP 108: Statutory Receivables	Unknown	No significant effect
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	Unknown	No significant effect
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	No significant effect
• GRAP 18: Segment Reporting	01 April 2015	No significant effect
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	No significant effect
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	No significant effect
• GRAP 107: Mergers	01 April 2015	No significant effect
• GRAP 20: Related parties	01 April 2016	No significant effect
• IGRAP 11: Consolidation – Special purpose entities	01 April 2015	No significant effect
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2015	No significant effect
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2015	No significant effect

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Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2015	2014
2. Inventories		
Water	18 430	9 305
3. Other receivables		
Cash shortages	23 428	25 674
Payments in advance	2 825	4 825
Prepaid expenses	385 000	375 000
	411 253	405 499

Cash shortages relates to a claim against an employee in the 2014 financial year. In the 2015 financial year the movement relates to cash shortages/amounts overbanked from banking cash takings.

4. VAT receivable

VAT	2 858 705	2 341 752
Opening Balance	2 341 752	2 112 575
Net movement for Output and Input VAT	5 844 241	3 655 934
Refunds received	(5 327 288)	(3 426 757)
Closing Balance	2 858 705	2 341 752

The municipality is registered for VAT on the payment basis.

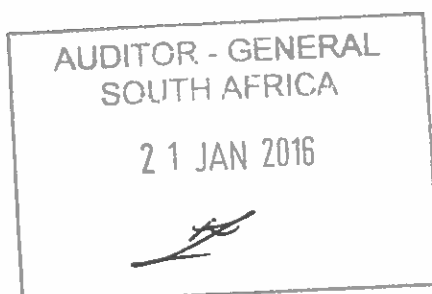
5. Trade receivables

Gross balances		
Rates	1 843 494	1 648 267
Electricity	185 942	340 846
Water	439 181	1 626 736
Waste water	24 724	130 598
Sewerage	103 216	717 760
Refuse	161 532	916 099
Other	33 951	136 286
Payments received in advance	(102 656)	(89 515)
	2 689 384	5 427 077

Debtors with credit balances	140 334	130 211
Less: Provision for debt impairment	(578 216)	(4 152 075)
	(437 882)	(4 021 864)

Net balance

Rates	2 251 502	1 405 213
Current (0 -30 days)	60 054	67 289
31 - 60 days	36 540	28 681
61 - 90 days	19 594	24 236
91 - 120 days	17 415	22 307
121 - 365 days	1 709 891	1 505 754
	1 843 494	1 648 267



Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2015	2014
5. Trade receivables (continued)		
Electricity		
Current (0 -30 days)	158 727	162 487
31 - 60 days	16 752	47 668
61 - 90 days	4 697	6 051
91 - 120 days	4 444	5 016
121 - 365 days	1 322	119 624
	185 942	340 846
Water		
Current (0 -30 days)	110 204	93 521
31 - 60 days	236 009	110 563
61 - 90 days	52 252	71 755
91 - 120 days	20 749	105 480
121 - 365 days	19 967	1 245 417
	439 181	1 626 736
Waste water		
Current (0 -30 days)	22 644	23 027
31 - 60 days	1 258	8 024
61 - 90 days	132	1 058
91 - 120 days	203	536
121 - 365 days	487	97 953
	24 724	130 598
Sewerage		
Current (0 -30 days)	41 402	38 653
31 - 60 days	29 438	25 974
61 - 90 days	20 243	23 544
91 - 120 days	7 624	22 675
121 - 365 days	4 509	606 914
	103 216	717 760
Refuse		
Current (0 -30 days)	82 461	74 281
31 - 60 days	40 520	34 633
61 - 90 days	25 260	27 800
91 - 120 days	7 615	26 641
121 - 365 days	5 676	752 744
	161 532	916 099
Debtors with credit balances	140 334	130 211
Provision for debt impairment	(578 216)	(4 152 075)
	(437 882)	(4 021 864)
Payments received in advance		
Current (0 -30 days)	(102 656)	(89 515)

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Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2015	2014
5. Trade receivables (continued)		
Other		
Current (0 -30 days)	10 917	10 772
31 - 60 days	1 976	2 238
61 - 90 days	2 262	2 257
91 - 120 days	2 282	3 101
121 - 365 days	16 514	117 918
	33 951	136 286
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	196 732	208 122
31 - 60 days	322 316	180 697
61 - 90 days	110 314	136 860
91 - 120 days	54 648	147 770
121 - 365 days	1 700 705	4 377 965
	2 384 715	5 051 414
Industrial/ commercial		
Current (0 -30 days)	96 976	80 334
31 - 60 days	8 560	3 056
61 - 90 days	3 258	1 959
91 - 120 days	856	1 965
121 - 365 days	21 134	15 463
	130 784	102 777
National and provincial government		
Current (0 -30 days)	93 754	92 059
31 - 60 days	31 618	74 027
61 - 90 days	10 869	17 882
91 - 120 days	4 828	36 022
121 - 365 days	36 525	52 897
	177 594	272 887
Total		
Current (0 -30 days)	383 754	380 514
31 - 60 days	362 493	257 780
61 - 90 days	124 441	156 701
91 - 120 days	60 332	185 757
121 - 365 days	1 758 364	4 446 325
	2 689 384	5 427 077
Debtors with credit balances	140 334	130 211
Less: Provision for debt impairment	(578 216)	(4 152 075)
	2 251 502	1 405 213
Total debtor past due but not impaired		
61 - 90 days	38 594	58 962
91 - 120 days	24 902	72 817
121 - 365 days	1 054 210	411 250
	1 117 706	543 029

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Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

5. Trade receivables (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(4 152 075)	(4 034 650)
Contributions to allowance	(1 390 889)	(1 744 240)
Debt impairment written off against allowance	4 964 748	1 626 815
	(578 216)	(4 152 075)

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	715	625
Bank balances	889 649	461 063
Short-term deposits	333 872	10 280
	1 224 236	471 968

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA Bank - Cheque Account - 4053623514	542 911	389 030	262 002	512 266	345 032	291 715
Standard Bank - Cheque Account - 280252013	377 383	76 864	69 663	377 383	116 031	-
Standard Bank - Call Investment Account - 28875729-001	-	6 186	6 054	-	6 186	6 054
ABSA Bank - Fixed deposit - 9190855277	-	-	1 376	-	-	1 376
ABSA Bank - Fixed deposit - 92-8656-0237	-	1 000	-	-	1 000	-
Standard Bank - Fixed deposit - 638042060-001	1 942	2 631	-	1 942	2 631	-
ABSA Bank - Fixed deposit - 91-6875-2598	-	463	-	-	463	-
Nedbank - Fixed Deposit - 03/7881115912/000003	270 470	-	-	270 470	-	-
Nedbank - Fixed Deposit - 03/7881117494/000001	61 460	-	-	61 460	-	-
Total	1 254 166	476 174	339 095	1 223 521	471 343	299 145

7. Investment property

	2015			2014		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	39 388 359	(1 128 500)	38 259 859	39 389 859	(1 050 500)	38 339 359

Reconciliation of investment property - 2015

	Opening balance	Transfers	Impairments	Total
Investment property	38 339 359	(1,500)	(78,000)	38,259,859

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand 2015 2014

7. Investment property (continued)

Reconciliation of investment property - 2014

	Opening balance	Disposals	Transfers	Impairments	Total
Investment property	39 758 859	(181 500)	(8 500)	(1 229 500)	38 339 359
Fair value of investment properties				45 112 000	45 329 500

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Neither operation costs nor income was derived from investment properties.

8. Property, plant and equipment

	2015			2014		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	799 000	-	799 000	799 000	-	799 000
Community assets	2 389 474	(1 486 095)	903 379	2 389 474	(1 333 854)	1 055 620
Infrastructure	327 029 434	(170 845 921)	156 183 513	317 246 970	(156 932 496)	160 314 474
Landfill sites	6 841 331	(1 145 713)	5 695 618	6 841 331	(572 856)	6 268 475
Leased and other assets	11 552 855	(8 880 436)	2 672 419	11 803 916	(7 822 670)	3 981 246
Buildings	6 965 500	(6 067 978)	897 522	6 965 500	(5 980 328)	985 172
Work-in-progress	64 615 229	-	64 615 229	38 247 802	-	38 247 802
Total	420 192 823	(188 426 143)	231 766 680	384 293 993	(172 642 204)	211 651 789

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	799 000	-	-	-	-	799 000
Community assets	1 055 620	-	-	-	(152 241)	903 379
Infrastructure	160 314 474	-	-	9 782 464	(13 913 425)	156 183 513
Buildings	985 172	-	-	-	(87 650)	897 522
Landfill sites	6 268 475	-	-	-	(572 857)	5 695 618
Lease and other assets	3 981 246	143 842	(33 249)	-	(1 419 420)	2 672 419
Work-in-progress	38 247 802	36 149 891	-	(9 782 464)	-	64 615 229
Total	211 651 789	36 293 733	(33 249)	-	(16 145 593)	231 766 680

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	799 000	-	-	-	-	799 000
Community assets	1 207 862	-	-	-	(152 242)	1 055 620
Infrastructure	160 177 822	-	-	14 039 120	(13 902 468)	160 314 474
Buildings	1 072 822	-	-	-	(87 650)	985 172
Landfill sites	6 841 331	-	-	-	(572 856)	6 268 475
Leased and other assets	4 930 663	720 336	(239 049)	-	(1 430 704)	3 981 246
Work-in-progress	16 965 970	35 320 952	-	(14 039 120)	-	38 247 802
Total	191 995 470	36 041 288	(239 049)	-	(16 145 593)	211 651 789

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2015	2014
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8. Property, plant and equipment (continued)

Contractual commitments for the acquisition of property, plant and equipment

Infrastructure	25 877 214	23 943 164
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2015			2014		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	466 343	(466 339)	4	466 343	(466 339)	4

Reconciliation of intangible assets - 2015

	Opening balance	Total
Computer software	4	4

Reconciliation of intangible assets - 2014

	Opening balance	Total
Computer software	4	4

10. Heritage assets

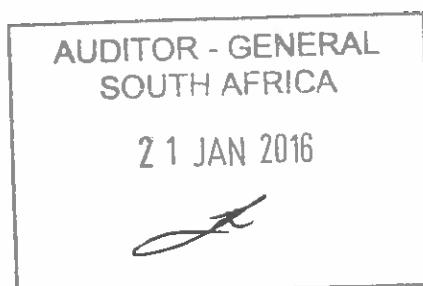
	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	659 164	-	659 164	659 164	-	659 164

Reconciliation of heritage assets 2015

	Opening balance	Total
Historical monuments	659 164	659 164

Reconciliation of heritage assets 2014

	Opening balance	Total
Historical monuments	659 164	659 164



Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

11. Non-current assets held for sale

Reconciliation - 2015

	Opening balance	Additions	Disposals	Total
Non-current assets held for sale	8 500	1 500	(1 000)	9 000

Reconciliation - 2014

	Opening balance	Additions	Disposals	Total
Non-current assets held for sale	110 000	8 500	(110 000)	8 500

Erf 2119 was sold but had not yet been transferred at 30 June 2015.

12. Repayment - National Revenue Fund

National Treasury	2 911 616	5 131 616
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The municipality applied for a roll over on the 2012/2013 unspent conditional grants. The application was denied and the municipality is required to repay R5,131,616.

The amount is repayable and will be deducted from the 2015/16 and 2016/17 tranches of the equitable share grant.

Non-current liabilities

At amortised cost	742 616	631 616
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Current liabilities

At amortised cost	2 169 000	4 500 000
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13. Finance lease obligation

Minimum lease payments due

- within one year	455 486	716 398
- in second to fifth year inclusive	282 706	739 310

	738 192	1 455 708
	(78 944)	(210 499)

less: future finance charges

Present value of minimum lease payments	659 248	1 245 209
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Present value of minimum lease payments due

- within one year	399 604	559 498
- in second to fifth year inclusive	259 644	685 711

	659 248	1 245 209
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Non-current liabilities

	259 644	685 711
--	---------	---------

Current liabilities	399 604	559 498
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	659 248	1 245 209
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The average lease term was 5 years and the effective borrowing rate ranges between prime and prime less 1.5%.

The municipality's obligations under finance leases are secured by the lessor's title over the leased assets. .

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2015	2014
14. Trade and other payables		
Trade payables	24 243 566	18 047 757
Payments received in advanced	153 192	114 122
Salaries control	60	-
Leave pay	1 095 318	1 065 796
Direct deposits not receipted	82 438	137 255
Sundry deposits	5 727	7 182
Retentions	101 187	761 706
Debtors with credit balances	140 334	130 211
Bonus accrual	597 078	570 035
	26 418 900	20 834 064

15. Consumer deposits

Electricity	26 510	27 079
Water	399 813	122 615
	426 323	149 694

No interest accrues on consumer deposits as Baviaans Municipality is not a deposit taking entity in terms of the Banking Act.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

DORA grants		
Regional Bulk Infrastructure Grant	(2 687 598)	(468 243)
	-	-
Other sector departmental grants		
Rapid Response - DWA	498 615	498 615
Water and Sanitation	200 000	200 000
Water Service Assets	-	(1)
Sarah Baartman - LED Grant	63 251	370 000
Sarah Baartman - Tourism Grant	60 000	-
	(1 865 732)	600 371

Movement during the year

Balance at the beginning of the year	600 371	4 562 898
Additions during the year	42 759 493	42 921 460
Income recognition during the year	(45 225 596)	(41 752 371)
Transferred to loans	-	(5 131 616)
	(1 865 732)	600 371

See note 21 for reconciliation of grants from National/Provincial Government.

The overall closing balance of unspent conditional grants is reflected as an amount receivable (Debit). This is due to amounts already paid and claimed by the municipality on the Regional Bulk Infrastructure Grant amounting to R2,6 million. The other sector departmental grants are correctly disclosed as liabilities relating to unspent portions at 30 June 2015.

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17. Provisions

Reconciliation of provisions - 2015

	Note	Opening Balance	Additions	Total
Rehabilitation of landfill		7 196 742	373 897	7 570 639
Long service awards	49	1 685 661	86 189	1 771 850
Post employment medical aid	49	2 464 046	(166 620)	2 297 426
		11 346 449	293 466	11 639 915

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Rehabilitation of landfill	6 841 331	355 411	7 196 742
Long service awards	1 617 000	68 661	1 685 661
Post employment medical aid	1 406 000	1 058 046	2 464 046
	9 864 331	1 482 118	11 346 449

Annual Bonuses

Bonuses are paid out to all employees (except for senior management) during November each year and are based on a 13th monthly basic salary.

Long service awards

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the collective agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary
- After 10 Continuous Years of Service - 3% of Basic Annual Salary
- After 15 Continuous Years of Service - 4% of Basic Annual Salary
- After 20 Continuous Years of Service - 5% of Basic Annual Salary
- After 25 Continuous Years of Service - 6% of Basic Annual Salary
- After 30 Continuous Years of Service - 6% of Basic Annual Salary
- After 35 Continuous Years of Service - 6% of Basic Annual Salary
- After 40 Continuous Years of Service - 6% of Basic Annual Salary
- After 45 Continuous Years of Service - 6% of Basic Annual Salary

Post-employment medical benefits

This provision was valued by an independent valuator as at 30 June 2015. The valuation of this liability considers all employees, retired employees and their dependants who participate in the medical aid arrangements and are entitled to a post-employment medical aid subsidy. The Projected Unit Credit funding method has been used to determine the post-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

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17. Provisions (continued)

Rehabilitation of landfill

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites are expected to be closed in 2018, after which rehabilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

- The CPIX was used to adjust the cost as it is the only determining factor year on year.

The landfill sites are nearing the end of their useful lives and the ground and ground water on the entire site are thus considered to be contaminated and not just the portions in use, i.e. the provision provides for the cost of rehabilitating the entire site and not just the portions used up to financial year end. The entire site would need to be rehabilitated due to waste distributed across the entire site over the years since opening thereof. Thus, as provided in GRAP 19 where it states that the provision should only be raised to the extent that the costs would need to be incurred, it is considered that the full cost of rehabilitation would need to be incurred to rehabilitate the sites.

The municipality does not have licences for the landfills therefore the sites will need to be rehabilitated in their entirety.

18. Property rates

Rates received

Property rates	4 372 948	3 429 311
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Valuations

Residential	245 442 300	204 471 800
Commercial	67 403 500	59 949 000
State	71 797 700	77 633 500
Agricultural	1 893 946 000	1 452 811 500
Vacant	17 112 000	12 529 000
Indigent	72 766 000	46 981 500
Places of worship	-	427 500
	2 368 467 500	1 854 803 800

The following general rates were applied during the 2014/2015 and 2013/2014 years respectively to property valuations to determine the assessment rates:

Residential properties valued below R 50 000 in Willowmore and Steytleville	R535.73/year	R487.03/year
Residential properties valued from R50 001 to R100 000 in Willowmore and Steytleville	R584.43/year	R531.30/year
Residential properties valued above R100 000 in Willowmore and Steytleville	0.00590 c/R	0.00537 c/R
Residential properties in Rietbron	0.00450 c/R	0.004092 c/R
Businesses in Steytleville and Willowmore	0.00759 c/R	0.00690 c/R
Agricultural properties	0.00042 c/R	0.00033 c/R
State properties	0.00961 c/R	0.00873 c/R
Businesses in rural areas	0.00765 c/R	0.00695 c/R
Vacant land	0.01614 c/R	0.014674 c/R

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19. Service charges		
Sanitation charges	418 322	279 746
Sale of electricity	10 824 069	9 818 826
Sale of water	3 796 207	3 382 391
Sewerage charges	1 915 640	1 644 671
Refuse removal	2 723 259	2 354 990
	19 677 497	17 480 624
20. Revenue		
Property rates	4 372 948	3 429 311
Service charges	19 677 497	17 480 624
Fines, Penalties and Forfeits	800	9 250
Government grants & subsidies	69 672 627	61 478 552
Interest received	708 961	580 460
Agency services	535 392	764 352
Licences and permits	745 656	624 582
Rental of facilities and equipment	199 248	46 126
Other income	350 571	283 416
Gain on disposal of assets	71 569	152 455
Public contributions and donations	-	12 424
	96 335 269	84 861 552
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	19 677 497	17 480 624
Rental of facilities and equipment	199 248	46 126
Interest received	708 961	580 460
Agency services	535 392	764 352
Licences and permits	745 656	624 582
Other income	350 571	283 416
Gain on disposal	71 569	152 455
	22 288 894	19 932 015
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	4 372 948	3 429 311
Government grants & subsidies	69 672 627	61 478 552
Public contributions and donations	-	12 424
Fines, Penalties and Forfeits	800	9 250
	74 046 375	64 929 537

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21. Government grants and subsidies		
Equitable share	20 481 000	18 694 000
Cacadu - LED	-	-
Library subsidies	300 000	220 000
Department of Human Settlements	-	259 963
Municipal Infrastructure Grant	9 898 000	14 030 000
Municipal Systems Improvement Grant	934 000	890 000
Sarah Baartman - LED Grant	306 749	10 000
Integrated National Electrification Grant	900 000	-
Down Housing	49 917	-
Rapid Response Grant - DWA	-	170 419
Subsidy on audit fees	3 254 891	441 151
Department of Trade and Industry Grant (Amounts paid by Department)	2 326 790	16 094 260
Public Works - EPWP	1 390 000	1 045 000
Cacadu - Fires Services Grant	250 000	250 000
Finance Management Grant	1 600 000	1 400 000
Regional Bulk Infrastructure Grant	27 944 977	7 862 729
Vuna Awards	-	60 000
SETA Grant	36 303	51 030
	69 672 627	61 478 552

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Sarah Baartman - LED Grant

Balance unspent at beginning of year	370 000	-
Current-year receipts	-	370 000
Conditions met - Transferred to revenue	(306 749)	-
	63 251	370 000

Conditions still to be met - remain liabilities (see note 16).

The funds were utilised for the branding of a tourism information sign, internet marketing, Sewefontein Information Office reception equipment and support for the Steytleville Crafters.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	4 867 092
Current-year receipts	9 898 000	14 030 000
Transferred to revenue	(9 898 000)	(14 030 000)
Transferred to loan	-	(4 867 092)
	-	-

The municipality upgraded streets, stormwater, bulk water, high mast lighting and bucket eradication during the current financial year.

Municipal Systems Improvement Grant

Current-year receipts	934 000	890 000
Transferred to revenue	(934 000)	(890 000)

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21. Government grants and subsidies (continued)

The grant was utilised to upgrade financial systems and the implementation of ward committee.

Waste Water Treatment Grant

Balance unspent at beginning of year	-	(858 667)
Current-year receipts	-	2 734 528
Transferred to revenue	-	(1 875 861)
	-	-

No spend in the current financial year.

Rapid Response Grant - DWA

Balance unspent at beginning of year	498 615	669 034
Conditions met - transferred to revenue	-	(170 419)
	498 615	498 615

Conditions still to be met - remain liabilities (see note 16).

No spend in the current financial year.

Water Service Assets Grant

Balance unspent at beginning of year	(1)	(1)
Other	1	-
	-	(1)

No spend in the current financial year.

Down Housing

Current-year receipts	49 917	1 568 824
Transferred to revenue	(49 917)	(999 375)
Other transfers	-	(569 449)
	-	-

The grant was utilized for the internal electrification of sub-economic houses.

Regional Bulk Infrastructure Grant

Balance overspent at beginning of year	(468 243)	(1 437 751)
Current-year receipts	25 725 622	8 832 237
Conditions met - transferred to revenue	(27 944 977)	(7 862 729)
	(2 687 598)	(468 243)

The municipality built new bulk water infrastructure for Steytleville.

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Figures in Rand	2015	2014
21. Government grants and subsidies (continued)		
Public works - EPWP		
Balance unspent at beginning of year	-	264 524
Current-year receipts	1 390 000	1 045 000
Conditions met - transferred to revenue	(1 390 000)	(1 045 000)
Other	-	(264 524)
	-	-

Various social upliftment projects were undertaken. This included a clean up campaign using local unemployed residents.

Finance Management Grant

Current-year receipts	1 600 000	1 400 000
Conditions met - transferred to revenue	(1 600 000)	(1 400 000)
	-	-

The municipality utilised the grant for the employment of Financial Interns, training in line with competencies and the compilation of annual financial statements and audit improvement.

Integrated National Electrification Grant

Current-year receipts	900 000	-
Conditions met - transferred to revenue	(900 000)	-
	-	-

The grant was utilized for the internal electrification of sub-economic houses.

Sarah Baartman - Tourism Grant

Current-year receipts	60 000	-
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Conditions still to be met - remain liabilities (see note 16).

No spend in the current financial year

Water and Sanitation Grant

Balance unspent at beginning of year	200 000	200 000
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Conditions still to be met - remain liabilities (see note 16).

No spend during the current financial year.

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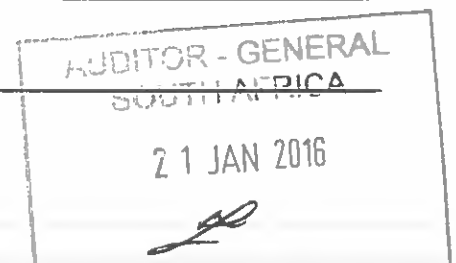
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Figures in Rand	2015	2014
22. Personnel		
Basic	15 697 653	14 648 936
Bonus	1 115 085	996 128
Medical aid - company contributions	985 387	914 879
UIF	136 020	132 490
WCA	146 375	213 000
SDL	206 853	152 153
Leave pay provision charge	151 724	27 981
Pension fund contributions	1 553 332	1 387 334
Travel, motor car, accommodation, subsistence and other allowances	694 438	792 678
Overtime payments	483 305	425 861
Long-service awards	149 921	136 474
Housing benefits and allowances	34 931	30 142
Provident fund contributions	425 380	459 605
Post employment medical aid	(130 860)	(91 000)
Other	4 776	6 513
	21 654 320	20 233 174
Remuneration of municipal manager		
Annual Remuneration	600 903	552 776
Travel, motor car, accommodation, subsistence and other allowances	158 400	137 400
Contributions to UIF, Medical and Pension Funds	8 907	8 517
	768 210	698 693
Remuneration of chief finance officer		
Annual Remuneration	698 148	659 937
Travel, motor car, accommodation, subsistence and other allowances	10 800	10 800
Contributions to UIF, Medical and Pension Funds	9 433	3 461
	718 381	674 198
Remuneration of Manager - Community Services		
Annual Remuneration	401 619	372 414
Travel, motor car, accommodation, subsistence and other allowances	142 800	142 800
Contributions to UIF, Medical and Pension Funds	8 434	1 861
	552 853	517 075
Remuneration of the Manager - Corporate Services		
Annual Remuneration	479 964	429 414
Travel, motor car, accommodation, subsistence and other allowances	85 800	85 800
Contributions to UIF, Medical and Pension Funds	7 023	6 863
	572 787	522 077
Remuneration of Manager - Technical Services		
Annual Remuneration	389 019	469 414
Travel, motor car, accommodation, subsistence and other allowances	30 533	45 800
Contributions to UIF, Medical and Pension Funds	5 165	6 943
	424 717	522 157

The technical services manager resigned in February 2015



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Figures in Rand	2015	2014
22. Personnel (continued)		
Remuneration of Manager - Technical Services (2015 Appointment)		
Annual Remuneration	99 333	-
Travel, motor car, accommodation, subsistence and other allowances	10 800	-
Contributions to UIF, Medical and Pension Funds	1 394	-
	111 527	-

The new technical service manager commenced in May 2015

23. Remuneration of councillors

Executive Mayor	370 020	305 835
Councillors	1 210 974	961 092
Councillors allowances	171 276	401 723
	1 752 270	1 668 650

In-kind benefits

The municipality received assistance from the Sarah Baartman District Municipality. The assistance provided by Sarah Baartman District Municipality was to provide accounting support services.

Councillors' Remuneration

2015

Councillor	Remuneration	Allowances	Total
EL Looek (Mayor)	370 020	24 468	394 488
D J Bezuidenhout	201 829	24 468	226 297
H Booyesen	201 829	24 468	226 297
M E Fivaz	201 829	24 468	226 297
G A Hobson	201 829	24 468	226 297
V B Lapperts	201 829	24 468	226 297
T R Spogter	201 829	24 468	226 297
	1 580 994	171 276	1 752 270

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23. Remuneration of councillors (continued)

2014

Councillor	Remuneration	Allowances	Pension and medical aid	Total
EL Loock (Mayor)	293 667	78 977	12 168	384 812
D J Bezuidenhout	160 182	53 791	-	213 973
H Booysen	160 182	53 791	-	213 973
M E Fivaz	160 182	53 791	-	213 973
G A Hobson	160 182	53 791	-	213 973
V B Lapperts	160 182	53 791	-	213 973
T R Spogter	160 182	53 791	-	213 973
	1 254 759	401 723	12 168	1 668 650

24. Debt impairment

Contributions to debt impairment provision	1 390 889	1 744 240
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25. Depreciation and amortisation

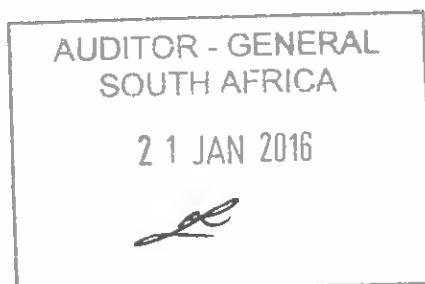
Property, plant and equipment	16 145 593	16 145 921
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26. Finance costs

Post employment medical aid	335 765	208 000
Provision for rehabilitation of landfill	373 897	355 411
Finance leases	126 720	223 719
Trade and other payables	799 408	605 082
	1 635 790	1 392 212

27. Repairs and maintenance

Buildings	39 383	30 006
EPWP	1 395 478	1 366 767
Electricity	124 583	-
Equipment	66 337	28 160
Fencing	20 640	3 041
Maintenance	17 552	5 260
Network	25 216	153 341
Sports fields	6 648	12 817
Street lights	58 860	35 612
Streets	51 349	73 823
Tools	22 663	21 805
Traffic signs	17 197	2 500
Vehicles	348 872	220 292
Water	130 087	-
	2 324 865	1 953 424




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Figures in Rand	2015	2014
28. Bulk purchases		
Electricity	9 152 754	8 475 329
29. Grants and subsidies paid		
Free Basic Services	6 710 446	5 385 989
30. General expenses		
Actuarial cost	(319 059)	991 707
Advertising	47 924	38 765
Assessment rates & municipal charges	714 110	598 374
Auditors remuneration	2 167 983	2 376 445
Bank charges	259 526	182 423
Chemicals	211 631	149 735
Communication	139 212	96 901
Community assistance	7 854	22 245
Community development and training	122 742	-
Commission paid	279 688	173 439
Computer expenses	1 242 735	747 778
Consumables	22 842	21 607
Electricity - municipal usage	1 217 327	1 274 704
Finance Management Grant	1 406 750	1 272 051
Fire fighting	17 400	96 406
Fuel and oil	1 129 366	1 186 089
Insurance	326 778	246 316
Internal audit	152 904	374 784
LED SMME/arts and crafts expenditure	-	5 907
Lease rentals	692 863	153 864
Legal fees	263 664	273 902
Membership fees	500 000	462 500
Motor vehicle expenses	136 050	302 994
Movement in water inventory	(9 125)	38 929
MSIG	823 399	785 594
Other projects	-	15 408
Postage and courier	153 460	173 228
Printing and stationery	424 314	415 638
Project management costs	458 093	392 759
Refuse	95 217	108 000
Research and development costs	42 215	77 206
Royalties and license fees	30 576	33 989
Professional fees	87 104	543 620
Special projects	-	27 497
Sundry expenses	486	258 722
Telephone and fax	556 259	573 171
Tourism development	408 754	104 410
Training	10 496	2 931
Travel - local	96 317	146 210
Transfer fees	25 664	34 614
Ward committees	26 447	30 086
Uniforms	82 297	14 202
Valuation of properties	154 666	-
	14 206 929	14 825 150

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Figures in Rand	2015	2014
31. Impairment of assets		
Impairments		
Investment property	78 000	1 229 500

32. Prior period errors

The correction of error relating to the opening retained income balance at 01 July 2013 is due to the following adjustment:

Heritage assets	659 164
Property, Plant and Equipment	7 350 508
Provision	(5 863 831)
Investment property	58 359
	<u>2 204 200</u>

The adjustment to heritage assets relates to the implementation of GRAP 103 relating to heritage assets now being recognised.

The adjustment to Property, plant and equipment relates to the restatement of assets previously carried at R1 in the fixed asset register as well as a restatement to the estimated cost of rehabilitation to landfill sites. The adjustment to the provision is also affected and disclosed above.

Further to the above, the following balances were adjusted at the 2014 reporting date:

Statement of financial position	Restated 2014	Reported 2014
Assets		
Current assets		
Non-current assets		
Investment property	38 339 359	38 374 000
Property, plant and equipment	211 651 789	204 814 329
Heritage assets	659 164	-
Liabilities		
Current liabilities		
Trade and other payables	20 834 064	20 264 029
Provisions	-	570 035
Non-current liabilities		
Provisions	11 346 449	5 193 775
Opening Accumulated Surplus or Deficit	204 358 687	202 154 490
	<u>487 189 512</u>	<u>471 370 658</u>

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Figures in Rand	2015	2014
32. Prior period errors (continued)		
Statement of Financial Performance		
Revenue		
Government grants & subsidies	61 478 552	61 427 522
Other income	283 416	334 445
Expenditure		
Personnel	(20 233 174)	(20 243 282)
Depreciation and amortisation	(16 145 921)	(15 645 287)
Finance costs	(1 392 212)	(1 090 955)
Loss on Disposal of Assets	(181 500)	(88 500)
General expenses	(14 825 150)	(14 815 042)
	8 984 011	9 878 901

Comments on restatements and reclassifications

Statement of financial position

Investment property

In the prior year an investment property was sold but never recorded. This adjustment has been made to correct the records for the effect of this disposal.

Property, plant and equipment

The adjustment to property, plant and equipment relates to more than one type of adjustment. In the previous year's certain assets had been depreciated to a carrying amount of R1. An exercise was performed to restate the carrying amount of these assets in the fixed asset register. In addition, a restatement was performed on the provision for landfill sites rehabilitation. The effect of the cost and accumulated depreciation is taken into account in the property, plant and equipment balance.

Heritage assets

As above, heritage assets have now been measured and recognised in the statement of financial position retrospectively.

Provisions

The provision for landfill sites rehabilitation was restated retrospectively in the current year.

Trade and other payables

In the current year, provisions for bonuses was reclassified from current provisions to payables due to the fact that employees are entitled to receive payouts even if they resign prior to the payout month of November. There is therefore certainty to recognise this a payable instead of a provision as previously treated.

Statement of financial performance

Government grants and subsidies

SETA grants were reclassified from other income to government grants and subsidies in the current year.

Other income

SETA grants were reclassified from other income to government grants and subsidies in the current year.

Personnel

Expenditure relating to uniforms has been reclassified from personnel costs to general expenditure in the current year.

Depreciation and amortisation

The restatement in depreciation relates to the correction of depreciation of previously fully depreciated assets as well as the effect of restatement of depreciation relating to the cost of landfill sites.

Finance costs

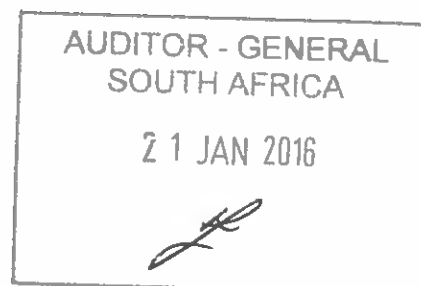
The adjustment to finance costs relates to the retrospective restatement of the provision for landfill site rehabilitation.

Loss on disposal of assets

This is the effect of the disposal of the investment property previously not recorded as disposed.

General expenses

Expenditure relating to uniforms has been reclassified from personnel costs to general expenditure in the current year.



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33. Cash generated from operations		
Surplus	21 283 413	11 626 463
Adjustments for:		
Depreciation and amortisation	16 145 593	16 145 921
Loss on sale of assets and liabilities	(71 570)	(152 455)
Impairment deficit	78 000	1 229 500
Debt impairment	1 390 889	1 744 240
Movements in provisions	293 466	904 078
Loss on sale of investment property	-	181 500
Changes in working capital:		
Inventories	(9 125)	38 929
Other receivables	(5 754)	(67 999)
Consumer debtors	(2 237 178)	(2 382 699)
Trade and other payables	5 584 836	5 758 463
VAT	(516 953)	(229 177)
Unspent conditional grants and receipts	(2 466 103)	(3 962 527)
Consumer deposits	276 629	4 059
	39 746 143	30 838 296
34. Auditors' remuneration		
Fees	2 167 983	2 376 445
Movement reconciliation	Current Year	Prior Year
Opening Balance	7 896 754	5 384 508
Fees for the year	2 471 501	2 709 147
Interest charged	630 834	396 070
Less: Payments made	(3 254 892)	(592 971)
	7 744 197	7 896 754

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35. Related parties

Relationships

Mayor	EL Loock
Councillor	Cllr D Bezuidenhout
Councillor	Cllr H Booysen
Councillor	Cllr M Fivaz
Councillor	Cllr GA Hobson
Councillor	Cllr V Lapperts
Councillor	Cllr T Spogter
Municipal Manager	JM Vumazonke
Chief Financial Officer	H Nagel
Technical Services Manager (Resigned February 2015)	B Arends
Technical Services Manager (Appointed May 2015)	RJ Botha
Community Services Manager	L de Beer
Corporate Services Manager	MA Lotter
District Municipality Which Baviaans Municipality forms part of	Sarah Baartman District Municipality
Close family member of key management	None
Joint venture of key management	None
Associate of close family member of key management	None
Members of key management	None

The mayor and councillors only received remuneration as set out in Note 23. Rates and municipal services were in line with other customers, see note 46.

The senior management only received remuneration as set out in Note 22. Rates and municipal services were in line with other customers.

All related government entities transactions, including the district municipality, such as rates and municipal services were in line with government legislation.

Payments made by Sarah Baartman District Municipality to A2A Kopano Incorporated in terms of the district intervention and support during the financial year amounted to R321 908.

During the financial year the municipality contracted with a supplier in which a councillor had an interest. The transaction related to catering services amounting to R4 955.

36. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
- Call deposits	333 872	10 280
- Trade and other receivables	2 251 502	1 405 213
- Other receivables	-	395 091

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Interest rate risk is managed by investing any surplus funds into high yield investments. The resultant interest earned is likely to offset interest paid, as both are linked to prime rates.

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37. Events after the reporting date

Investment properties donation received

Six erven in Steytlerville have been donated to Baviaans Municipality during the 2015 financial year and were in the process of transfer at year end 30 June 2015.

The properties have subsequent to year end, been registered in favour of Baviaans Municipality (on 07 August 2015) amounting to a value of R99 000.

Proposed Merger of Local Municipalities

After year end, the Demarcation Board re-instated and commenced a process relating to the proposed merger of the Baviaans, Camdeboo and Ikwezi Local Municipalities. This proposal had initially been referred to the court by Baviaans for a decision and the court had decided in favour of Baviaans that the process followed for the proposed merger was inadequate. The process for a merger of the above mentioned municipalities has now been re-instated by the Demarcation Board and the final outcome is pending. Refer to note 52 for details relating to going concern considerations of Baviaans Municipality.

38. Unauthorised expenditure

Opening balance	3 556 442	11 110 460
Add: Unauthorised expenditure - current year	816 529	5 340 776
Less: Certified by council as irrecoverable and written off	(3 556 442)	(12 894 794)
	<u>816 529</u>	<u>3 556 442</u>

39. Fruitless and wasteful expenditure

Opening balance	-	410 060
Add: Fruitless and wasteful expenditure - current year	744 265	473 445
Less: Certified by council as irrecoverable and written off	(744 265)	(883 505)
	<u>-</u>	<u>-</u>

40. Irregular expenditure

Opening balance	2 277 377	828 197
Add: Irregular expenditure - current year	247 618	2 277 377
Less: Certified by council as irrecoverable and written off	(2 277 377)	(828 197)
	<u>247 618</u>	<u>2 277 377</u>

41. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Goods and services to the value of R40 371 999 (2013/2014: R6,990,578) were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

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42. Compliance

The municipality was unable to pay creditors within the required 30 days due to cash constraints. This is in contravention of paragraph 65(2)(e) of the Municipal Finance Management Act.

During the audit of the 2013/14 annual financial statements it was found that contract BLM 2012/13/017 - Steytlerville Bulk Water Supply from Erasmuskloof: Phase 3, Water Mains, Pumping Stations and Telemetry was advertised in newspapers commonly circulating locally for less than 30 days in the case of transactions over R10 million (VAT included). The advertisement was running for 29 days instead of 30 days. This was done due to the fact that the 30th days would have been on a Saturday. This was recorded as non-compliant by the Auditor-General. Expenditure on this tender continued during the 2014/15 financial year.

Tender BLM 2014/15/010 was advertised in newspapers commonly circulating locally for less than 30 days in the case of transactions over R10 million (VAT included). The advertisement was running for 21 days instead of 30 days. This was due to the urgency of the matter. Due to the fact that the Auditor-General identified a previous tender as non-compliant an amendment notice was issued to the prospective tenders to extend the deadline for submission. This was also discussed in the compulsory site clarification meeting with the prospective tenderers before the tenders was submitted as well as advertised on website and on CIBD website.

43. Contingencies

Wanhoop

The municipality is involved in a dispute with the owner of a farm in respect of the municipality's rights to water that is sourced from the farm. The municipality's lawyers are of the opinion that the matter will only be resolved in court. If it goes to court, further costs could reach somewhere between R400,000 and R500,000. Should the municipality be successful, a reasonable portion of the costs will be payable by the owner of the farm.

The matter is still pending. The Department of Water Affairs are actively involved in trying to assist the municipality in finalising the matter to ensure that the municipality can register servitudes. On the matter of litigation it seems to be quiet for the moment and the lawyers foresee that it will remain like this for the immediate future.

Landfill sites

The municipality has not obtained a permit for the landfill sites in terms of Section 24G of the National Environmental Management Act. This could lead to possible penalties and fines being imposed.

Demarcation Board

The municipality is disputing the proposed merger of various municipalities, including Baviaans, with the Demarcation Board. After unsuccessful correspondence between the municipalities lawyers and the Demarcation Board, Baviaans Municipality brought an application against the Demarcation Board. The application was successful but the court ordered the Baviaans to pay the Camdeboo Municipality cost. Baviaans lawyers estimate the total costs to be valued at approximately R600,000.

44. Material losses

During the 2014/2015 financial year the municipality incurred distribution losses relating to water of 24% (2013/2014: 21%) and relating to electricity of 9.49% (2013/2014: 11.82%)

45. Pension and medical aid deductions

Pension

Current year payroll deductions and Council Contributions
Amount paid - current year

2 181 411	1 757 073
(2 004 491)	(1 321 879)
176 920	435 194

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45. Pension and medical aid deductions (continued)		
Medical aid		
Current year payroll deductions and Council Contributions	1 659 186	927 047
Amount paid - current year	(1 520 155)	(788 139)
	139 031	138 908
46. Councillors' arrear consumer accounts		
No councillors' consumer accounts are in arrears at 30 June 2015 and 30 June 2014.		
47. PAYE and UIF		
Current year payroll deductions	3 148 720	2 655 935
Amount paid - current year	(2 884 297)	(2 182 314)
	264 423	473 621
48. Operating lease receivables		
Present value of minimum lease payments receivable		
- within one year	6 600	6 600
- in second to fifth year inclusive	9 850	14 950
- later than five years	-	1 500
	16 450	23 050

The average lease terms is 10 years and the average effective lending rate is undetermined.

Obligations under operating leases are secured by the lessor's title to the leased property.

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49. Employee benefits

Defined benefit plan

The plan is a post employment medical benefit plan.

49.1 Post employment medical benefit

The amounts recognised in the statement of financial position are as follows:

Post Employment Medical Liability - Carrying value

Present value of the post employment benefit medical obligation - wholly unfunded	2 297 426	2 464 046
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2 464 046	1 406 000
Net expense recognised in the statement of financial performance	(166 620)	1 058 046
	2 297 426	2 464 046

Net expense recognised in the statement of financial performance

Interest cost	206 397	99 000
Actuarial losses	(242 157)	1 050 046
Benefits paid	(130 860)	(91 000)
	(166 620)	1 058 046

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.49 %	8.60 %
Net discount rate	0.75 %	0.69 %
Consumer price inflation	6.19 %	6.36 %
Medical cost trend rates	7.69 %	7.86 %
Expected increase in salaries	7.19 %	7.21 %

The PA 90-2 post-retirement mortality table used

Number of Continuation pensioners: 4 (2013/2014: 4)

Average age of Continuation pensioners as at 30 June 2015 was 68.3 (2013/2014: 67.3), with an average employer monthly contribution of R3,130 (2013/2014: R2,726)

History of liabilities, assets and experience adjustments

Amounts for the current and previous three years are as follows:

	2015 R	2014 R	2013 R	2012 R
Accrued Liability	1 771 850	1 685 661	1 617 000	1 179 000
Fair Value of Plan assets	-	-	-	-
Surplus (deficit)	(1 771 850)	(1 685 661)	(1 617 000)	(1 179 000)
Liabilities: (Gain) / Loss	(63 159)	56 641	71 000	73 000
Assets: Gain / (Loss)	-	-	-	-

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49. Employee benefits (continued)

49.2 Long service awards

The amounts recognised in the statement of financial position are as follows:

Long service awards - Carrying value		
Present value of the long service awards - wholly unfunded	1 771 850	1 685 661

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	1 685 661	1 617 000
Net expense recognised in the statement of financial performance	86 189	68 661
	1 771 850	1 685 661

Net expense recognised in the statement of financial performance

Current service cost	223 433	244 000
Interest cost	129 368	109 000
Actuarial (gains) losses	(76 902)	(58 339)
Bonuses paid	(189 710)	(226 000)
	86 189	68 661

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.20 %	8.12 %
Net discount rate	0.94 %	0.85 %
Consumer price inflation	6.19 %	6.21 %
Expected increase in salaries	7.19 %	7.21 %

History of liabilities, assets and experience adjustments

Amounts for the current and previous three years are as follows (R 000):

	2015 R	2014 R	2013 R	2012 R
Accrued liability	2 297	2 464	1 406	1 209
Fair Value Plan assets	-	-	-	-
Surplus (deficit)	(2 297)	(2 464)	(1 406)	(1 209)
Liabilities: (Gain) / Loss	226	1 128	66	81
Assets: Gain / (Loss)	-	-	-	-

Defined benefit obligation

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2015 by Arch Actuarial Consulting using the Projected Unit Credit Method.

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50. Operating lease payable		
Present value of minimum lease payments payable		
- within one year	544 517	-
- in second to fifth year inclusive	514 954	-
	1 059 471	-
Terms are 3 years at prime less 1.5%		
51. Public contributions and donations		
Public contributions and donations	-	12 424

52. Going concern

The executives of the municipality together with council have pursued various avenues, including the Sarah Baartman District Municipality, Department of Provincial and Local Government as well as Provincial and National Treasury in seeking a financial solution to the challenges faced by the municipality.

A detailed financial recovery plan has been drafted which is actively being implemented and progress monitored by Council and Management. A realistic three year budget has been adopted for the purposes of achieving financial recovery, while efforts are under way to upgrade the standard of financial administration and systems at the municipality.

Management and council have again committed themselves to achieving a clean audit and compliance with Provincial and National Treasury requirements.

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